

STATEMENT BY MARION B. FOLSOM  
BEFORE THE  
SUBCOMMITTEE ON NATIONAL POLICY MACHINERY  
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My name is Marion B. Folsom. I am a director and management adviser of the Eastman Kodak Company in the fields of finance, public relations, and employee benefits. I joined Eastman Kodak in 1914 and became treasurer in 1935 and a director in 1947. I resigned these positions in 1953 to become Under Secretary of the Treasury of the United States. At that time I also resigned as chairman of the Committee for Economic Development and as a director of the Federal Reserve Bank of New York. In 1955 I became Secretary of Health, Education, and Welfare. I resigned from that office in 1958 and rejoined Kodak a month later in my present capacity.

Prior to 1953 I served the Federal Government in a number of different capacities. I was a member of the President's Advisory Council on Economic Security, which assisted in the development of the Social Security System in 1934-35, and I served on the several subsequent councils. Since 1936 I have been a member of the Business Advisory Council for the Department of Commerce. In 1944-46 I served as staff director of the House of Representatives Special Committee on Post-War Economic Policy and Planning and in 1940-41 as a division executive of the National Defense Advisory Commission. I have also served as vice-chairman of the President's Advisory Committee on the Merchant Marine in 1947-48 and as a member of the National Advisory Board on Mobilization Policy in 1951-52.

I fully realize the importance of attracting able people into government service and am pleased to present my views on the problem.

As far as my own experience is concerned, I found it satisfactory-- in the administrative positions, in working for the Congressional committee, and in the various advisory committees. I know many other businessmen who have also found government service satisfying and rewarding. I do not feel that the difficulties faced by businessmen in the government are as serious as often depicted. The situation has been

exaggerated by the headlines arising from a few specific cases. Nevertheless, the fact that this impression exists among business people does create a problem in regard to recruiting men for these executive positions,

I have found that the factors involved in attracting men into government positions vary widely, not only as to individuals but as to occupational groups. I will discuss four main categories: (1) businessmen (2) lawyers; (3) college professors, and (4) miscellaneous professional men and state and local governmental officials.

### Businessmen

It is true that businessmen will find working for the government different in many respects from their experience in business. Much of the difficulty is due to the lack of appreciation of the fact that officials must operate in public view, and that Congress and the public have a right to know what is going on.

It is also hard for businessmen to become adjusted to the unique processes of governmental administration as compared with business administration. For instance, Civil Service rules make it difficult to reward good service of employees by prompt promotions and pay increases and to remove inefficient workers. Unless a person has had previous experience in government, it generally takes some months for him to adjust to the different surroundings and conditions, and the limitations of the numerous laws which reduce the flexibility of administration.

It is unfortunate that in most cases the business executive stays in government positions less than two years. He generally leaves just about the time he reaches the peak of his usefulness. A study recently made by the Harvard Business School showed that in the past sixteen years, of the businessmen who had been in government service and left, 48 per cent served only one year or less and only 33 per cent served over two years.

### Difficulties in Recruiting

While my experience was satisfactory to me personally, I did have difficulty in recruiting businessmen for top administrative positions, both in the Treasury and in the Department of Health, Education, and Welfare. Recruiting was especially difficult for such positions as Under Secretary, Assistant Secretary, and Assistants -- the appointive positions between the top Civil Service and the Secretary. I know also that other departments have had the same difficulty, not only in this Administration but in previous ones.

Businessmen with experience in handling people in large organizations are uniquely fitted for many executive positions in government. I have found that businessmen are available in two groups--the older men who are recently retired or who are approaching retirement age, and the very young men. Some very able men have been recruited from the older group in this and previous Administrations and many of them have done outstanding jobs. It is often difficult, however, for one who has had a top position in industry to accept a secondary position as an assistant. Furthermore, the men in this age group often cannot stand the pressure and the long hours required in most of these positions. It is also more difficult for them to adjust to the differences between government and business. The businessmen in the younger group who are available have generally not had adequate experience, although there are some outstanding exceptions.

The persons really needed for many of these positions are men in their late 30's or 40's, with ten or fifteen years of business experience and with several years in important administrative positions, especially in large organizations. Great difficulty is experienced in obtaining businessmen in this category.

The difference in salary is a factor, but I found this was not the main reason. The able men in this age group would benefit considerably from the government experience. They would have a number of years after their return to business to make up for any monetary losses which might have been experienced during their stay in government.

Difficulty is also experienced in regard to pensions and other employee benefits, stock options, etc., but these difficulties generally can be ironed out. Family reasons, such as the maintenance of two homes, change in schools for the children, and the difficulties in moving, also are factors.

#### Fear of Missing Opportunities for Promotion

What I found as the principal reason, however, was the fear on the part of the younger executive that, regardless of promises by the company, he would find upon his return that he might have lost an opportunity for advancement. While I would contend that the executive should benefit from the experience and thus might be able to advance faster, my arguments were not generally convincing. Because of this factor, it probably will be necessary in many cases to agree to a service of two years. An able person with the right experience can make a real contribution during that period, although it would be much better if he would stay longer.

All of the factors I've mentioned tend to make it difficult to attract the able executive, but I feel that good progress could be made

in overcoming some of them if certain measures were taken by government and industry.

While, as I've said, I do not think the climate for business executives in government is as bad as it's generally depicted, it would help if Congressional leaders would find occasion to say that they consider it important that businessmen be obtained for some of these key administrative positions. It would also help if Congressional leaders could find occasion from time to time to praise the work of businessmen who have performed an outstanding service. The press naturally plays up the cases where businessmen are criticized. A better climate would result if Senators and Congressmen were a little more careful in criticizing officials, and if -- when they did criticize certain individuals -- they were more careful not to give the impression that they were criticizing businessmen in general.

I found that the top officials of the large business organizations were quite favorably inclined to let their young executives do a tour of duty in government, but the difficulty arises with the attitude of the young executive in question. He quite often has the wrong opinion about the position of the businessman in government.

#### Company Benefit Plans

Of course, there are steps which industry could take to make government service more attractive.

Employee benefit plans now are an important part of an employee's remuneration and many businessmen would naturally hesitate to accept a government position if it should adversely affect their rights to group insurance, group health, or company pension plans. A company should continue the employee in the group life and group health plans while he is in government service, with the employee being considered as away on a leave-of-absence basis, and with the same premiums being paid by the company and employee as when he was with the company.

Ordinarily the status of the executive as to pension rights would be frozen as of the date of his leaving the company, with no credit being given for service while in the government. The company should also give credit to the employee when he returns to the company for the time served in the government. This practice was frequently followed for men returning from military service.

The government can help in the situation by making it clear in the regulations regarding employment of businessmen that such arrangements regarding benefit plans are permissible to men on leave of absence from their company.

It should also be understood that it would be permissible for a company to make a reasonable grant to the executive at the time of leaving, as was done in the case of those leaving for military service.

If arrangements of this type can be made, several of the obstacles can be overcome. The company should also make it clear to the executive that a position will be available to him when he returns and that every effort will be made to locate him in a position at least as good as the one he previously had. The company also should agree that in case a general salary increase were made during his absence, his salary upon return would reflect such increases.

Of course, a company in most cases cannot promise to hold an exact position open and the executive will have to take that chance.

I feel quite confident that if measures along the lines I have suggested and will suggest later are adopted, there will be enough men who are willing to devote two or three years of their career to government service. A capable man at the age I was talking about -- 35 to 45 -- would gain considerable benefit from this experience and should actually increase his earning power. But he should not go into the service with this in view.

The businessman who will probably succeed in government work is one who not only has ability as demonstrated by his progress with his company, but has shown an interest in government policies. He should have been active in affairs in his local community and his local, state, and national trade organizations, and thus become familiar with problems faced by government. It would also be very helpful if he has had some previous experience with the Federal Government, either in service on advisory committees or part-time work.

### Lawyers

Lawyers with corporate law experience are well fitted by training and experience for many of these appointive positions, not just as general counsels in the departments, but also as Assistants and Under Secretaries. This is especially true for the positions which call for contacts with members of Congress and the preparation and analysis of bills. Lawyers also are very helpful in planning programs and analyzing problems. Due to the nature of their experience, they are accustomed to adapting themselves to new situations. While not many lawyers have had much experience in administrative or executive positions, this is not always necessary. On the other hand, some of these young lawyers have turned out to be very able executives.

It is generally easier to obtain able young lawyers than businessmen. Their income, in most cases, has not reached the point where the salary

of a government position would mean a much monetary sacrifice. There seldom is any problem of employee benefits. The experience gained, moreover, in many cases would be more in line with their career.

There is one handicap in the rule that lawyers or their firms cannot participate in any case in which the lawyer was involved in his government work until two years after he has left the government. While such a rule is reasonable for lawyers in the Department of Justice, Internal Revenue, and certain other positions, it would seem that there should be more liberal interpretation in the usual appointive position. A clarification of this rule would make it easier to obtain able young men.

### Educators

For many of these positions college professors, especially those in the fields of political science, economics, and business administration, are good prospects. Most of them have had little executive experience and desire advisory positions rather than administrative positions. They can be valuable additions for most departments, and are especially helpful in formulating programs. There is little difficulty experienced in professors' obtaining leaves of absence for a reasonable time and, as a rule, the government salaries are higher than in the educational institution. Educators in administrative positions in their institutions are particularly good prospects, but they are not so readily available.

### Other Professions and Government Officials

Good men are available also in other professions, such as hospital, health, and welfare administrators, and men with experience in state and local governments. These government officials, however, would probably prefer Civil Service positions so that they would not be subject to loss of position when Administrations change.

### A Central Recruiting Agency Needed

With so many able men available, the problem resolves itself into one of recruitment and proper placement. At present there is no central agency in government service for recruiting these men. This is left up to each individual department. It would seem highly desirable to have a central recruiting office established in the White House which would maintain a list of the various positions to be filled by political appointees and the qualifications required for the positions. One reason the service of so many businessmen is short is that they were not properly placed in the first place. The present system is too much hit or miss. The Secretary or agency head generally is limited to suggestions received from friends or acquaintances and there is little system to it.

Such an office, comparable to executive personnel offices in large companies, could obtain lists of qualified men from various trade associations, management consulting firms, and executive employment agencies, and let it be known that key businessmen interested in government service should contact this office. Similar lists could be obtained for the other groups.

Such an office could also conduct a training program for the new executive, mainly to cover such things as conflict of interest rules, the mechanism of Civil Service, and the differences between government and business. The attitude with which the executive approaches a government job is most important, and such a training course should be very helpful in developing the right attitudes and approaches in dealing with other executive departments and with Congress.

A start has recently been made in giving the new executives a course of indoctrination but it is not uniform throughout the departments and the present program can be considerably enlarged. Such an office, to which the executive could come for help and advice, might help to increase the length of time which the businessman spends in government.

It would be very helpful if more promising young businessmen or men from other professions at an early age could obtain experience in government at a level below the level of Presidential appointments. A promising plan is now being tried out on a pilot basis in a program recently organized by Brookings Institution called "The Public Affairs Fellowship Program." This plan calls for a number of government agencies' taking promising businessmen into their organizations for periods of six to nine months. A number of businesses have indicated interest in this procedure and it is hoped that the Institution can demonstrate through this pilot program the feasibility of such an arrangement and encourage it to develop on a much broader scale. It may be necessary for the government to authorize a special category of training positions in the intermediate class usually made by appointment, without regard to Civil Service, for periods up to two years.

#### Conflict of Interest

Questions regarding conflict of interest undoubtedly prevent many executives from serving in government positions. The publicity given to a few outstanding cases has greatly exaggerated the actual situation, however, as far as the effect on businessmen is concerned.

In the great majority of cases there is no conflict of interest, as the executive would not be dealing with his former company and there is no need for him to divest himself of his savings. Except in the case of men in the very top positions, if a case should arise where the

executive would be dealing with his former company, he could arrange to turn this specific job over to an associate. In the few positions where a conflict of interest can be foreseen, the executive should not be forced to sell his assets, but should be given the option of turning them over to a trustee who would have complete control as to investment, voting rights, etc. Such an arrangement could be worked out with the assistance of the Department of Justice and with the approval of the Senate Committee which confirms the appointment.

This whole question of conflict of interest is in a great state of confusion and complexity due to the large number of statutes relating to various phases of the problem. Some of these statutes go back many years, when conditions were quite different than they are now. The situation would be alleviated to a great extent if these statutes could be consolidated and a reasonable statute adopted to meet present conditions.

Fortunately, a committee of very able lawyers from the New York City Bar Association has recently completed an exhaustive study of this whole problem of conflict of interest. Their report contains specific recommendations regarding divestment, employee benefit plans, payment for outside services, gifts, post-government employment activities, etc. Their report also makes recommendations about what phases of the problem should be covered by statute and which by regulations, and includes the draft of a proposed consolidated statute. I understand that the chairman of the committee, Roswell B. Perkins (a very able lawyer, who formerly served with me as Assistant Secretary of Health, Education, and Welfare) will present the report to your committee.

I have read the summary and the recommendations, and they seem to me to be very reasonable and provide adequate protection for the public interest. The enactment of a consolidated statute and the adoption of other recommendations along the lines recommended by this committee would, in my opinion, greatly improve the present situation.

The conflict of interest statutes and regulations now cover part-time employment, as well as full-time. Government departments find it quite helpful to bring in, from time to time, consultants or experts to help in specific problems, generally for short periods of time. These people are now often considered as government employees, the same as full-time employees. This sometimes prevents these experts from serving. I recall a case where a person declined to serve on one of the advisory councils of the National Institute of Health because of this provision. It would seem to me that the usual rules should not apply in the case of these part-time, temporary consultants, and that they should also be permitted to maintain their usual connections and income. The New York City Bar committee also covers this point in its recommendations.



Most of the business executives who come into government service have only a vague idea regarding the conflict of interest statutes and regulations, and there is very little systematic effort to acquaint them with these rules. I would strongly endorse the recommendation of this New York City Bar committee that a member of the White House Staff be designated to see that uniform regulations are adopted in all the departments and agencies, and that instructions developed by the Department of Justice be given to each businessman when he enters government service. Such an official could be associated with the recruiting office recommended earlier.

#### Salary Revisions for Appointed Positions

In regard to the salary level of executive positions in government, the fact that it is lower than in industry undoubtedly discourages business executives from accepting positions in government. As far as the top positions are concerned, such as Cabinet Secretaries and agency heads, I doubt if any increase in salary which would be practicable would make much difference. The people generally considered for these positions are in most cases earning salaries considerably above the government level and a small increase would have little effect. These men know that a sacrifice in income is necessary and accept only because of an overriding desire to serve the government.

On the other hand, an increase in the salaries in the second line positions -- that is, Under Secretaries, Assistant Secretaries, Assistants to the Secretary, and assistant agency heads -- would make a considerable difference in my opinion. It is more difficult for the younger men being considered for these positions to make the sacrifice in income.

A careful study which preceded the latest salary adjustments about three years ago recommended increasing salaries of Cabinet officers to \$35,000, Under Secretaries to \$30,000, Assistant Secretaries to \$25,000. This schedule was revised downward, however, by Congress and the salaries fixed between \$20,000 and \$25,000. The schedule, as recommended, would have an appreciable effect in obtaining able men and the cost would be very little as altogether only about 300 positions would be affected.

#### Civil Service Salary Revisions

If the salary level of these political appointees were raised, it would also be highly desirable to raise the maximum salaries in the top grades of Civil Service employees. I feel that these maximum salaries are now distinctly out of line with comparable positions in industry, and the government is losing too many of those who reach the top grades.

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The salaries of government employees in the lower and medium grades now compare favorably with those for similar work in industry. With the liberal sickness leave, vacation, pension, and now the group life and group health benefit plans which the government employees have, the employee benefits in government also compare quite favorably with those of progressive companies in industry.

A change, such as that suggested in the top Civil Service grades, could be made without much cost because there are relatively few employees in these grades (approximately 1500 in the three top grades). I know of no one thing that would be as effective in improving government administration as an increase in the maximum salary for these key workers. Not only would more of the able employees be kept in government service, but the government could attract abler young people in the first place.

During the 30's, governmental careers and salaries were attractive enough that government received its full share of able college graduates. In the post-war years this has not been the case. It has become increasingly difficult to compete with industry and the professions. It is important that steps be taken to make these careers more attractive.

Higher maximum salaries in the top grades would help. The government should also do more in introducing executive and management development programs as is done in many industries today. In the Department of Health, Education, and Welfare, we started a program a few years ago under which the entire Department is screened periodically to identify the young people with the greatest potentials for development. These people, along with some directly from college, are given a series of rotating assignments which will insure a breadth of experience and opportunities for growth. I understand that the program is working very well and also that the White House is encouraging a program of identifying key individuals throughout the government for such development. This is an important step for preparing individuals for these top Civil Service positions to replace the older persons who retire or leave.

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#### Summary

It is clear that Presidential appointees and the top-grade Civil Service employees determine to a very large extent the efficiency and effectiveness of government operations. It is important, therefore, that every effort be exerted to obtain able men for these positions.

For these appointive positions men well fitted by experience in business, law, education, and other fields are available for service

in government. The following measures would help to attract able men to these positions and hold them for longer periods:

1. A central agency in the White House should maintain lists of positions and the necessary qualifications, recruit people, place them properly, and instruct them in the unique features of government administration.
2. Certain obstacles could be overcome if the various conflict-of-interest statutes were consolidated and a reasonable statute adopted to meet present conditions.
3. Business concerns could make it easier for executives to serve in government for two years or more if they would grant leaves of absence and continue coverage under group life, group health, and other employee benefit plans. The company also should assure the executive of at least a comparable position when he returns and should assure him that recognition will be given for his government service. In addition, credit should be given him under the pension plan for his service in government as was done for those going into military service.
4. The status of lawyers as to clients during the first two years out of government service should be clarified.
5. Salaries should be increased moderately to reduce the monetary sacrifice often involved for those taking these positions.
6. A program for giving young men work in government for a period of 6 to 9 months would be helpful in stimulating interest in government service and in equipping young men for positions in government later.
7. The maximum salaries of the three top grades of Civil Service should be increased. This would serve to hold more able Civil Service employees and to attract more young men into government service.
8. A more extensive management development program should be adopted throughout government to identify and develop the most promising younger people.